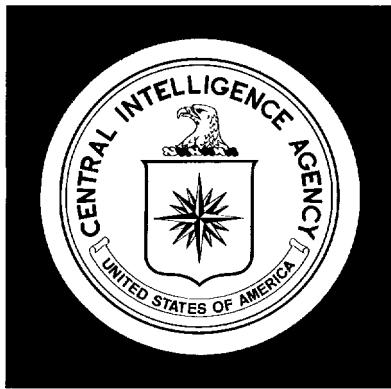


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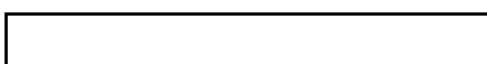
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State Department review completed

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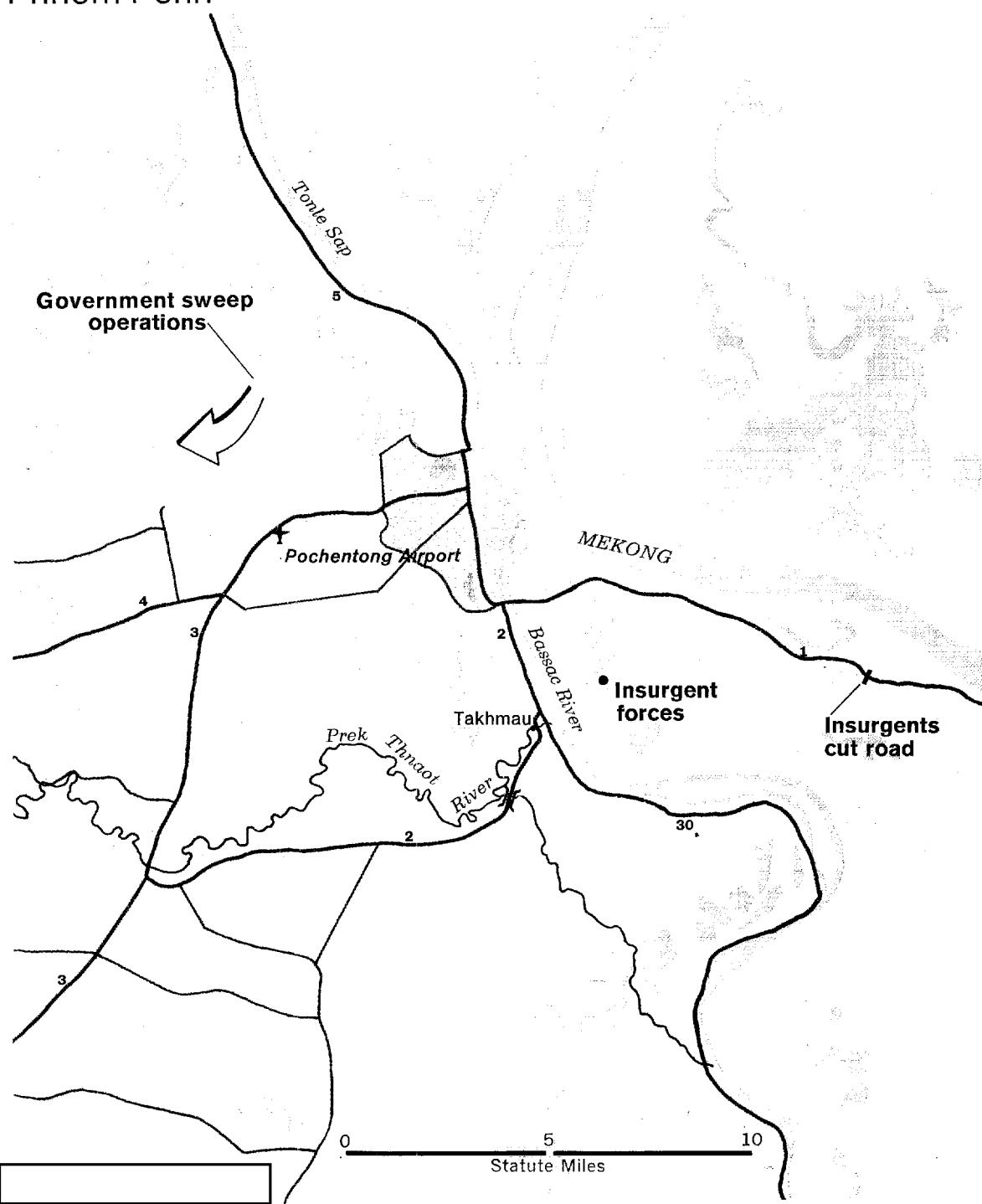
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Phnom Penh



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CAMBODIA: Khmer Communist forces continue to test Phnom Penh's outer defenses.

In an apparent effort to divert Cambodian Army units from the defense line south of Phnom Penh, insurgent units in the past several days have stepped up attacks between the Bassac and Mekong rivers. A small insurgent force in this area is now operating within two miles of Takhmau, the capital's largest suburb. Other Communist units have cut Route 1 twelve miles from the capital. Army commanders, in response to these threats, are planning to shift the 1st Division from the Route 3 front where a new government counterattack has met stiff resistance.

Northwest of Phnom Penh, government sweep operations are putting pressure on small insurgent elements that have infiltrated into an area three to five miles from Pochentong Airport.

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the Communist offensive against Phnom Penh has not gone as well as expected.

a group of local insurgent officials from the Phnom Penh region met in mid-July and conceded that the offensive had been ineffectual and had fallen short of the goal of influencing the collapse of the Lon Nol government. The officials reportedly agreed that the offensive had foundered because heavy air strikes had caused substantial casualties and hindered tactical movement and supply activity. They noted, however, that they were under orders to continue the "struggle" and that they would do so. Their immediate tactical goal was to increase pressure on Phnom Penh's outskirts. The officials also indicated that no direct action to capture the capital itself was being planned.

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar scored a modest advance yesterday on European money markets. Since 26 July it has gained slightly more than 2 percent against the mark and the French franc, but has lost a little ground vis-a-vis the British pound. Pressures on the EC joint float have also eased as the mark has dropped more than the other participating currencies. The dollar's recovery and the mark's fall are largely attributable to the easing of credit conditions in Germany, but few observers believe that the problems arising from the Bundesbank's tight money policy are over.

The dollar dropped slightly against the yen this week, indicating that the demand for the dollar stimulated by exporters' repayment of debts has largely dissipated.

Japanese monetary officials are in general agreement that the yen should be allowed to appreciate another 5-6 percent in the coming months. They expect upward pressure on the yen because Japan usually runs a very large trade surplus during the third and fourth quarters and because Tokyo is considering easing controls on foreign investment in Japan. Monetary officials feel that a further yen appreciation would help slow inflation in Japan by reducing the prices of imported food and raw materials. It would also help ease the way for a new international monetary agreement. Some major Japanese exporters are already writing long-term contracts that provide for a substantial yen appreciation.

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ITALY: The Rumor government last week instituted a new set of capital controls, which it hopes will reduce the scope for speculative maneuvers by commercial interests and banks and make investment abroad by Italians more costly. Because a large part of the capital leaving Italy passes through well-developed illegal and semilegal channels, the effectiveness of the new measures in shoring up the lira and in bringing about a significant shift of resources into domestic investment will be limited.

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FOR THE RECORD\*

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India:

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[redacted] the Indian Supply Mission in Washington informed US officials on 31 July that it has temporarily halted purchases of US grain to assess the price situation. India has purchased only 1.8 million tons of foodgrain since mid-June, mainly from the US, out of its goal of 4.5 million tons.

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Singapore: Singapore recognized Hanoi on 1 August. In an effort to be even-handed, Singapore announced that the South Vietnamese accreditation in Singapore was simultaneously being changed from a consulate to an embassy. All the ambassadors to be exchanged under these arrangements will probably be non-resident.

Burma-Thailand: The major opium smuggler, Lo Hsing-han, who was recently captured by Thai authorities, was handed over to Burma on 2 August. It is not yet clear whether the Burmese will charge him with insurgent activity against the government or narcotics trafficking, but the odds are good that he will be given a long jail sentence.

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\*These items were prepared by CIA without consultation with the Departments of State and Defense.

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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board on 2 August 1973 approved the following national intelligence estimate:

NIE 11-10-73      Soviet Military Posture and Policies in the Third World

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